

**Radhika Rao**  
Economist



Please direct distribution queries to  
Violet Lee +65 68785281 [violetlee@db.com](mailto:violetlee@db.com)

- *The US will be withdrawing India from the Generalised System of Preferences (GSP) program*
- *Impact on India's exports will be modest*
- *India is, reportedly, considering retaliatory tariffs*
- *There is still a possibility of arriving at a compromise within the 60-day window, before the higher tariffs kick in*

The US Trade Representative (USTR) announced plans yesterday, to withdraw India (along with Turkey) as a beneficiary developing country under the Generalized System of Preferences (GSP) program. Plans to review India's eligibility for this program began in April 2018. These changes will be effective 60 days after notifications to Congress and the governments of India and Turkey are sent, and further process are completed.

Under the GSP program, select India's exports enter the US duty-free. In return, India is required to meet few criteria; this included, respecting arbitral awards in favour of US citizens/companies, providing adequate, effective intellectual property protection, and providing the US with equitable and reasonable market access.

**Why the reassessment?** The USTR blamed India for resurrecting a wide array of trade barriers and tariffs that had hurt trade with the US; President Trump recently called for a 'reciprocal tax' on purchases from India. Add to this, the US also cited petitions from its dairy and

medical device industries, which had led to the initial review of the GSP benefits.

Trade negotiations have been ongoing since the US unilaterally imposed tariffs on steel and aluminium imports, to which India's calls for exemption were not met. This latest action is a part of the US' broader push to correct its large trade deficits with key trading partners (particularly China) and improve market access for US-based companies. India is considering retaliatory tariffs, which was recently deferred to April 2019 as negotiations were ongoing. The second line of response might be to file a case with the WTO, deeming the withdrawal of GSP was violating the principle of non-discrimination.

**What is likely to be the impact?** US accounted for 15.8% of India's exports last year, with nominal exports at USD48bn. India runs a persistent goods trade surplus with the US; averaged of USD20bn in the past four years, alongside a smaller surplus under the services account.

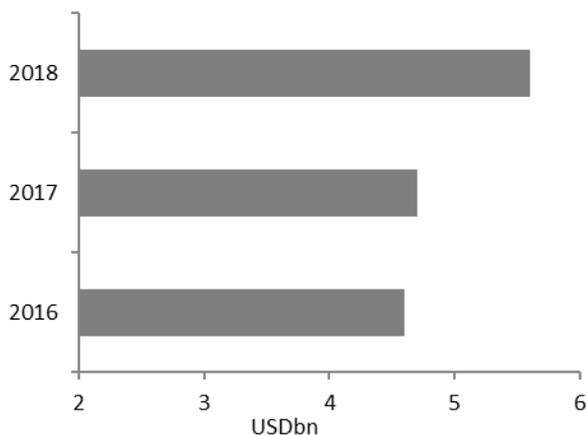
Under the GSP umbrella, cumulative imports of USD19bn were shipped into the US in 2016. Of these India was the top beneficiary at ~USD6bn [1]. Affected sectors include farm products, food and beverages, leather, textiles, metals and products, plastic, etc.

India's trade balance (goods) with US& China  
USDbn



Source: CEIC, DBS Group Research

Exports from India under GSP



Source: Commerce Ministry, LiveMint, DBS

Despite the product-spread, the impact in nominal terms is modest as GSP makes 10% of India’s exports to the US and a small 1-2% of overall India’s exports. This implies that over 90% of Indi’as exports to the US faces normal

tariffs, thus limiting the scope of any significant economic impact. Separately, India’s Commerce Secretary remarked that despite exporting under the GSP umbrella, India had received GSP benefits of only worth USD190mn, the magnitude of which is reasonably modest.

While the US has expressed its intent to withdraw trade concessions, the changes take effect after a 60-day window. This leaves room for the US-India trade representatives to get back to the table and reach a compromise on the arrangement, akin to what is underway with China.

Notes: [1] Commerce Secretary remarks “<https://www.livemint.com/news/india/gsp-withdrawal-will-not-have-much-impact-on-india-s-exports-commerce-secy-1551788173907.html>”

## Group Research

### Economics & Strategy

**Taimur Baig, Ph.D.**

Chief Economist - G3 &amp; Asia

+65 6878-9548 [taimurbaig@dbs.com](mailto:taimurbaig@dbs.com)**Nathan Chow**

Strategist - China &amp; Hong Kong

+852 3668-5693 [nathanchow@dbs.com](mailto:nathanchow@dbs.com)**Masyita Crystallin, Ph.D.**

Economist – Indonesia &amp; Philippines

+62 21 2988-4003 [masyita@dbs.com](mailto:masyita@dbs.com)**Joanne Goh**

Regional equity strategist

+65 6878-5233 [joannegohsc@dbs.com](mailto:joannegohsc@dbs.com)**Neel Gopalakrishnan**

Credit Strategist

+65 6878-2072 [neelg@dbs.com](mailto:neelg@dbs.com)**Eugene Leow**

Rates Strategist - G3 &amp; Asia

+65 6878-2842 [eugeneleow@dbs.com](mailto:eugeneleow@dbs.com)**Chris Leung**

Economist - China &amp; Hong Kong

+852 3668-5694 [chrisleung@dbs.com](mailto:chrisleung@dbs.com)**Ma Tieying**

Economist - Japan, South Korea, &amp; Taiwan

+65 6878-2408 [matieying@dbs.com](mailto:matieying@dbs.com)**Radhika Rao**

Economist – Eurozone, India &amp; Thailand

+65 6878-5282 [radhikarao@dbs.com](mailto:radhikarao@dbs.com)**Irvin Seah**

Economist - Singapore, Malaysia, &amp; Vietnam

+65 6878-6727 [irvinseah@dbs.com](mailto:irvinseah@dbs.com)**Duncan Tan**

FX &amp; Rates Strategist - ASEAN

+65 6878-2140 [duncantan@dbs.com](mailto:duncantan@dbs.com)**Samuel Tse**

Economist - China &amp; Hong Kong

+852 3668-5694 [samueltse@dbs.com](mailto:samueltse@dbs.com)**Philip Wee**

FX Strategist - G3 &amp; Asia

+65 6878-4033 [philipwee@dbs.com](mailto:philipwee@dbs.com)

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

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